

## Japan-ASEAN Economic Partnership: Prospects for 2015 and Beyond

ANGEL VERSETTI\* AND ADAM HEAL\*\*

### Highlights

This note examines the evolving economic partnership between Japan and the Association of South-East Asian Nations (ASEAN) and reviews prospects for the future in light of the establishment of the ASEAN Economic Community (AEC) in 2015. Key findings:

- Japan is the largest single source of investment into ASEAN and its third-largest trading partner. ASEAN is an important production hub for Japanese multinationals; a strategic source of raw materials and energy; and a consumer market of growing importance.
- As major investors into ASEAN, Japanese firms have provided significant opportunities for employment, technology transfer, and skills development. The Japanese government has also offered sizeable development assistance to the bloc.
- Substantial disparities in institutional and infrastructure capacity persist amongst ASEAN Member States (AMS), leading to their unequal integration into value chains driven by Japanese multinationals. Non-tariff measures also remain major impediments to trade in many countries.
- Despite these shortcomings, newer members of ASEAN are seeing the fastest growth in Japanese investment. Between 2012 and 2014 the number of Japanese-owned firms operating in Cambodia, Lao PDR and Myanmar increased by 85%, 73% and 200%, respectively, with a growing presence in the garments sector.
- Successful completion of the AEC, resulting in lower barriers to trade and investment—and greater ease of doing business—within ASEAN, will further raise the attractiveness of the region as a base for Japanese businesses.
- Likewise, the possible conclusion of negotiations on the Regional Comprehensive Economic Partnership (RCEP)—a trade agreement between ASEAN and six regional partners—is a major opportunity to strengthen linkages with Japan and others.
- Reaping the benefits of the AEC and RCEP requires action to: simplify overlapping trade rules; prioritize trade facilitation; encourage infrastructure investment; open trade in services; enhance labour mobility; and better protect intellectual property rights.

*\*Angel Versetti is a former intern in the Trade and Investment Division, United Nations Economic and Social Commission for Asia and the Pacific.*

*\*\*Adam Heal is an Associate Economic Affairs Officer, Trade and Investment Division, United Nations Economic and Social Commission for Asia and the Pacific ([heal@un.org](mailto:heal@un.org)).*

*Without implicating him, the authors wish to thank Professor Sisira Jayasuriya on comments he provided on an earlier version of this note.*

## Introduction: the evolution of Japan-ASEAN economic relations

At the time of the establishment of the Association of South-East Asian Nations (ASEAN) in 1967, Japan was already emerging as Asia's regional economic powerhouse. As its economy grew, Japan became an important importer of commodities from ASEAN Members States (AMS) (at that time: Indonesia, Malaysia, the Philippines, Singapore and Thailand) and also began to export an expanding range of products to the subregion. By the 1970s, over 25% of ASEAN members' total import and export flows were with Japan. Furthermore, as Japan's rising productivity led to domestic wage increases, ASEAN countries presented an attractive low-cost alternative for the manufacturing activities of Japanese companies.

During the 1980s and 1990s, South-East Asian businesses grew increasingly integrated with Japanese firms' manufacturing supply chains. Japanese investment was a crucial source of technology and employment, and Japanese firms provided many opportunities for vocational training and skills development. As the continued economic growth produced an expanding middle-class in countries like Thailand and Malaysia, the bloc was also emerging as an important consumer market for Japanese goods. The 1990s was also the decade in which four new countries at a lower stage of economic development (Cambodia, Lao PDR, Myanmar and Viet Nam) joined ASEAN. This broadened the range of options for Japanese investors and expanded the size of the ASEAN market, but also created challenges for AMS in terms of coordination among a more diverse group of countries with vastly different physical and institutional infrastructure capacities. Indeed, in addition to the notable growth and rising prosperity of its individual countries, ASEAN itself has changed markedly since its creation. Originally a security-focused association, it has evolved through a series of agreements into an engine for economic integration: the end of 2015 will be marked by the creation of the ASEAN Economic Community (AEC) with the ambition that the region should become a single market and production base.

In 2009, an Economic Partnership Agreement between Japan and ASEAN, known as the ASEAN-Japan Comprehensive Economic Partnership (AJCEP), came into force. Furthermore, seven bilateral Economic Partnership Agreements (EPAs) exist between Japan and individual AMS.<sup>1</sup> In 2013, Japan's Prime Minister Shinzo Abe visited all 10 AMS, underscoring the strategic and economic importance of the subregion for Japan. Looking forward, there are significant opportunities to deepen trade and investment linkages. The further integration of South-East Asia through the AEC, as well as the potential conclusion of the RCEP Agreement, involving ASEAN and Japan (along with five other dialogue partners) can support the next phase of this important relationship. Further, Japan and four AMS are also engaged in negotiations on the Trans-Pacific Partnership, involving the United States and ten other Asia-Pacific economies. Lastly, six AMS are also Asia-Pacific Economic Cooperation (APEC) members and thus will be potentially involved in negotiating the suggested Free Trade Area of the Asia-Pacific.<sup>2</sup>

---

<sup>1</sup> Cambodia, Lao PDR and Myanmar do not have bilateral EPA agreements with Japan.

<sup>2</sup> See *A Free Trade Area of the Asia-Pacific: Potential Pathways to Implementation*, Trade Insights, Issue No. 4

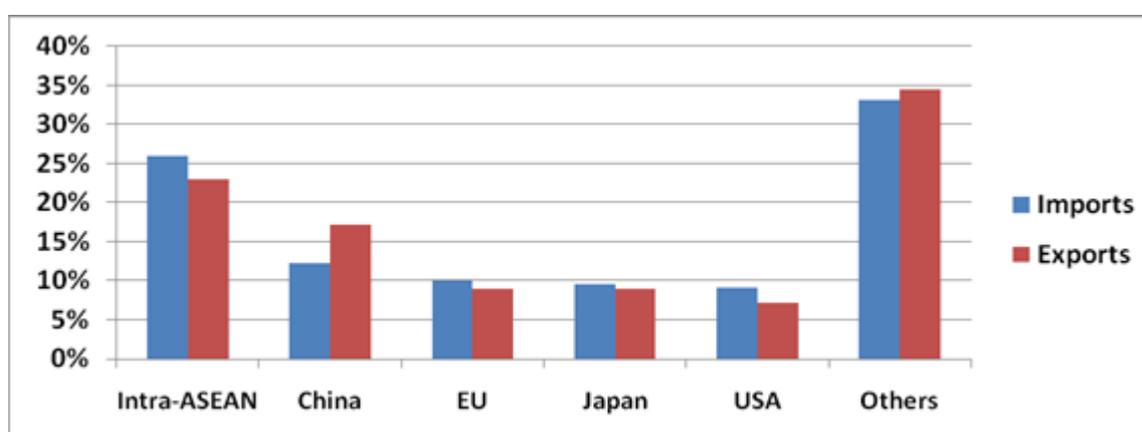
## Assessing Japan-ASEAN Economic Partnership : Challenges and Opportunities

In the sections below, the present state of economic partnership between Japan and ASEAN is assessed across four dimensions: (i) merchandise trade; (ii) services trade; (iii) foreign direct investment; and (iv) labour mobility. In each section, major obstacles to further cooperation are also presented.

### Merchandise trade

Japan and ASEAN are already major trade partners. The total two-way trade between Japan and ASEAN was \$229 billion in 2013, up from \$128 billion in 2000. Japan is the third-largest importer and exporter for ASEAN, after China and the EU (and intra-ASEAN flows). In 2013, Japan accounted for 9.6% and 9.0% of ASEAN's exports and imports, respectively (figure 1). Conversely, for Japan, its imports from and exports to ASEAN amounted to 14.0% and 15.5% of its totals, respectively (Ministry of Finance Japan, 2014). Japan runs a slight trade deficit with ASEAN as a whole, amounting to \$7.7 billion for the first half of 2014 (Ministry of Finance of Japan, 2014). However, gross import/export figures do not accurately reflect the patterns of export and re-export which characterize the complex flows typical of global value chains. Within ASEAN, Japan's largest trading partners by the total value of trade were: Thailand (\$67.6 billion), Indonesia (\$52.6 billion) and Malaysia (\$46.8 billion). Furthermore, 32.5% of total output of the Japanese-owned companies operating in ASEAN is sold within the subregion, making Japanese companies a significant supplier of manufactured goods in ASEAN (ASEAN Statistics, 2014).

**Figure 1: ASEAN's trade with major partners, shares of total, 2013**

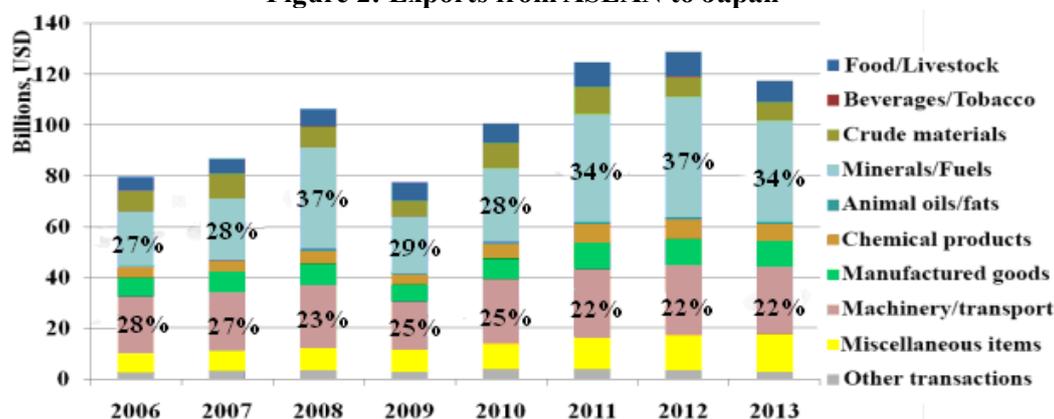


Source: IMF, Direction of Trade Statistics (2013)

In 2013, ASEAN's merchandise exports to Japan amounted to \$117.7 billion, with Indonesia (\$32.2 billion), Malaysia (\$29.6 billion) and Thailand (\$22.5 billion) being the top three ASEAN exporters. However, other countries are also indirectly involved with exports to Japan through the provision of raw materials or components at earlier stages of the supply chain. ASEAN exports to Japan predominantly consist of intermediate goods and components (66% of total exports), which Japan uses in the production of final consumer goods, many of which will then be re-exported worldwide, including back to ASEAN. The most important two sectors are (i) mineral fuels and lubricants and (ii) machinery and transport equipment. These

together account for over half of the value of all ASEAN-originated exports to Japan. Other products<sup>4</sup> exported to Japan from ASEAN in notable volumes include: crude materials; components for electronic equipment; textiles; miscellaneous manufactured goods; and food (figure 2).

**Figure 2: Exports from ASEAN to Japan**



*Source:* ESCAP calculation based on Comtrade data accessed through World Integrated Trade Solution, (2014)

In the other direction, Japan's exports to ASEAN are dominated by machinery and transport equipment. These products, along with electronic equipment and other advanced manufacturing sectors, together account for nearly three quarters of all Japanese exports to ASEAN. Chemical products (in particular pharmaceuticals) are another important export category from Japan to ASEAN. Exports of automobiles and vehicle parts are worth 18% of the total value of overall Japanese exports in 2013. ASEAN is a significant importer of Japanese motor vehicles, having imported over 270,000 Japanese vehicles in 2012 which represented 47% of total Japanese car exports to Asia. The ASEAN subregion absorbs over 80% of all truck exports and over 85% of all buses exported from Japan to Asia as final products. Thailand, Indonesia and Malaysia are the primary destinations for all of these types of vehicles (Japan Automobile Manufacturers Association, 2014).

Trade between Japan and ASEAN has been facilitated by falling tariffs. While unilateral tariff reductions have played a role, preferential trade agreements have also supported trade liberalization. Notably, in 2009, the Japan-ASEAN Comprehensive Economic Partnership was implemented. As a result, average tariffs between Japan and AMS have decreased markedly. For the two most significant categories of ASEAN exports to Japan (mineral fuels and machinery equipment) which together accounted for 60% of the total ASEAN exports to Japan, the effectively applied tariff is now zero (WTO, 2012). However, tariff peaks in sensitive sectors remain. In Japan, the most protected area is the agricultural sector with a weighted average tariff rate of 5.24% for ASEAN agricultural imports to Japan as of 2012. Some commodities were excluded from tariff reductions under the agreement and Japan retains extremely high tariff rates on several products such as rice (778%), wheat (180-220%), dairy products (110-190%) and beef (38%).

<sup>4</sup> Classification of products follows SITC Revision 4

Given the different stages of development attained by the AMS, their degree of trade liberalization with respect to Japan varies considerably. Singapore, for instance, which does not apply any tariffs imports from Japan, has a schedule for the Elimination or Reduction of Customs Duties within the ASEAN-Japan Comprehensive Economic Partnership only three lines long. Brunei's Schedule, in contrast, is some 452-pages long and outlines a complex web of concessions (Ministry of Foreign Affairs and Trade, Brunei Darussalam, 2014). In 2011 Indonesia applied a weighted average tariff rate of around 7.1%-7.3% on the two most significant import categories from Japan: (i) machinery and electronics and (ii) other manufactured goods. The Philippines' applied tariffs were between 3.8% and 5%, by weighted average, on the most significant Japanese imports in 2010. Finally, in 2009 Thailand maintained weighted applied tariff rates of 8.8%, 5.8% and 3.8% on the three most important imported goods from Japan, while Malaysia had rates of 13%, 3.7%, and 3.2%, on the top three imported goods, with non-industrial non-electronic manufactured goods from Japan receiving the higher tariff rate (World Integrated Trade Solution, 2014). While the ultimate ambition of the Japan-ASEAN FTA is the complete elimination of customs duties on the manufactured goods listed in the Agreement for all AMS, less prosperous members have been given extended deadlines for compliance. Cambodia, Myanmar and Lao PDR are allowed to gradually lower the base rate for customs duties until 2026, while gaining immediate access to the Japanese market.

However, with the falls in tariffs both within ASEAN and between ASEAN and Japan, non-tariff barriers such as standards and regulations, rules of origin, slow customs clearing processes and surcharges are now often more significant obstacles to trade than tariffs. For the least developed AMS, Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) measures, which countries like Cambodia and Lao PDR can find difficult to meet (Sotharitho, 2010). Japan's bilateral RTAs with the Philippines, Brunei Darussalam and Indonesia do not cover key NTMs including SPS and TBT issues (table 1). Further, while the ASEAN-Japan EPA does include NTMs it is not judged to be effective in reducing barriers to trade in these areas (Damuri, 2014).

Further deepening of the trading relationship between Japan and ASEAN will thus require additional attention to non-tariff barriers. This problem affects a wide range of Japanese goods and is particularly acute in the least developed AMS, such as Cambodia, Lao PDRs and Myanmar, who frequently lack institutional capacity to effectively remove non-trade barriers. Furthermore, there is need to accelerate implementation of the ASEAN Self-Certification and the ASEAN Trade Repository systems. Some of the barriers can be dealt with unilaterally, in other cases co-operation through the AEC and RCEP may offer the greatest gains.

### **Services Trade**

Services trade volumes between Japan and ASEAN are considerably smaller than for merchandise trade. Nevertheless, Japan exported around \$26 billion of services to ASEAN in 2012 (the last year from which OECD data is available) and imported around \$21 billion in return (table 2). Japan-ASEAN services trade, however, remains very concentrated on Singapore. Indeed, Singapore accounts for more than half of both exports and imports of services between Japan and ASEAN. This is unsurprising in given Singapore's role as the

region's services hub and its liberal trading regime, but does suggest the need to other economies to examine whether further reform and liberalization would boost trade further.

**Table 2: Japan's services trade with selected ASEAN economies, 2012**

	Exports to ASEAN (Million USD)					Imports from ASEAN (Million USD)				
	Transportation	Travel	Other Commercial Services	Government Services	Total Services	Transportation	Travel	Other Commercial Services	Government Services	Total Services
Indonesia	595	176	2812	2	3585	164	792	1270	7	2232
Malaysia	525	231	2066	28	2850	264	253	751	5	1272
Philippines	301	119	557	31	1008	320	414	715	10	1459
Singapore	2909	214	11864	65	15052	4207	739	6531	102	11579
Thailand	1376	471	743	16	2606	841	1590	1436	9	3876
Viet Nam	259	143	601	6	1009	35	446	490	2	973
Total (6 partners)	5965	1354	18643	148	26110	5831	4234	11193	135	21391

Source: OECD Statistics on International Trade in Services (2014)

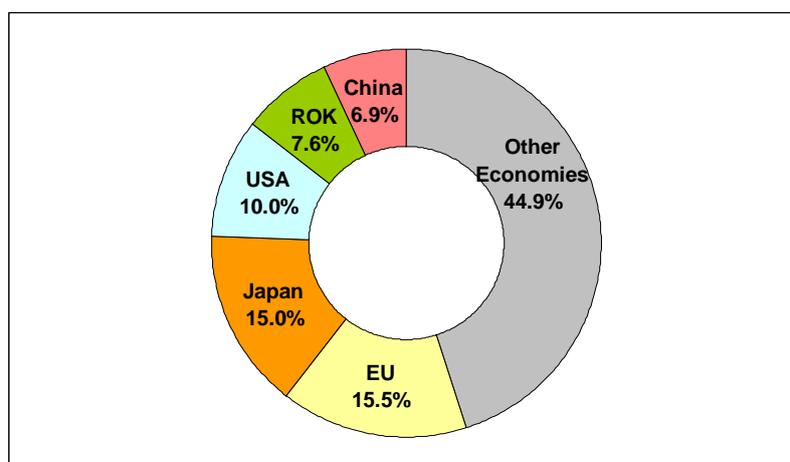
Indeed, the availability of competitive business services is increasingly recognized as essential to overall trade competitiveness and participation in global value chains. This is true for both the service sector itself and for manufacturing production in which services are valuable, though sometimes unrecognized, inputs. Efforts to liberalize trade in services in ASEAN have been significantly less successful than those for trade in goods (Nikombroriak and Jitdumrong, 2013). Commitments made thus far by AMS largely mirror those already in place through the General Agreements on Trade in Services within the framework of the WTO. Thus there has been little improvement in the flow of services within ASEAN (Hsieh, 2014). However, services liberalization is expected to be facilitated by the recently-introduced 9<sup>th</sup> Package of Commitments under the ASEAN Framework Agreement on Services (AFAS), which covers approximately 100 service sub-sectors in ASEAN. Japan's service sector also remains closed to foreign competition in many subsectors. As a result, productivity in services is generally lower than in manufacturing. Some Japanese investment in services in ASEAN countries is already occurring, such as in banking and logistics (Biswas, 2014). But there remain great untapped gains from further services liberalization by both parties.

### Foreign Direct Investment Flows

Japan has been a major investor in ASEAN economies for many years. Notably, Japanese automotive and electronics producers are already well established in Thailand and Viet Nam. Recent years have also seen the expansion of supply chains to increasingly incorporate Lao PDR and Cambodia, both as sources of raw materials and increasingly as bases for some manufacturing activities. Examples include the garment and footwear industries, which together accounted for 92.4% and 32.5% of total imports to Japan from Cambodia and Lao PDR respectively in 2012 (this includes both raw and processed materials as well as components for further use in the manufacturing of clothes and shoes). Additionally, ASEAN's

growing prosperity is elevating its attractiveness as a location for investment in production for local consumption, as well as being a platform for export-oriented manufacturing.

**Figure 3: ASEAN FDI inflows by source, 2013**



*Source:* Federation of Japanese Chambers of Commerce and Industry in ASEAN, 2013

Japanese firms accounted for 15% of all FDI inflows into ASEAN economies in 2013 (worth \$21.3 billion), a share more than double that of China (figure 3). The share of Japan in investment inflows varies substantially amongst individual ASEAN member states. Overall, Thailand is the most preferred destination for Japanese FDI, accounting for over 60% of Japan's total FDI into ASEAN in 2012, followed by Malaysia and Indonesia. For these three countries Japan is the largest single source of foreign investment (table 3). Japanese-owned firms operating in ASEAN are frequently the main channels for investment inflows into the subregion. It is estimated that there are some 6,135 Japanese firms registered in ASEAN today (JETRO, 2014). Japanese engagement in ASEAN continues to expand into new markets, with the number of registered Japanese firms nearly doubling in Cambodia and tripling in Myanmar between 2012 and 2014 (FJCCIA, 2014) (table 4). It is estimated that between 2003 and 2014, FDI flows from Japan into ASEAN totaled around \$156 billion and have created over 667,000 jobs within the bloc (fdiMarkets, 2014).

**Table 3: FDI inflows from Japan as shares of national total FDI inflows, in selected AMS, 2012**

Country	Share
Thailand	60.70%
Malaysia	22.20%
Indonesia	16.50%
Philippines	16.30%
Viet Nam	9.70%
Singapore	5.80%

*Source:* FJCCIA, 2014

**Table 4: Number of Japanese companies registered in AMS**

Country	2012 (June)	2014 (June)
Brunei	3	3
Darussalam		
Cambodia	91	168
Indonesia	594	703
Lao PDR	41	71
Malaysia	556	582
Myanmar	56	168
Philippines	604	721
Singapore	675	801
Thailand	1,379	1,552
Viet Nam	1,035	1,323
<b>Total</b>	<b>5,034</b>	<b>6,092</b>

Overall, Japan continues to invest in manufacturing facilities for electronics, automobiles, food processing, construction equipment and industrial machinery in ASEAN and has also begun exploring more actively opportunities in service industries such as banking and logistics. In terms of sector composition, in 2012 the largest shares of Japanese investments into ASEAN went into energy (19.6%), metallurgy (13.8%), automotive (10.4%) and chemicals (7.3%) (fDiMarkets, 2014). These sectors also have a significant potential to absorb technology transfer from Japan. It is expected that Japan will continue to have an impact on ASEAN economies through investment in both manufacturing and service sectors in the forthcoming years (Biswas, 2014).<sup>5</sup>

FDI flows from ASEAN to Japan have been very small, totaling less than \$1 billion in 2012, of which 98% came from Singapore and the remaining 2% from Thailand. This is in line with Japan's traditionally low levels of overall inward FDI flows (UNCTAD, 2014). Additionally, ASEAN investors still tend to invest more within the bloc, rather than overseas. Thus, in 2013, intra-ASEAN FDI amounted to \$21.3 billion (ASEAN Statistics, 2014).

Many AMS still have significant gaps in basic infrastructure which hampers their connectivity with regional markets and limits their appeal as investment destinations. Challenges vary according to the geographical characteristics of different members: Indonesia and Philippines, as archipelagoes, face challenges of sub-national maritime connectivity. Lao PDR, on the other hand, exhibits symptoms typical to landlocked developing countries: its trade flows are low and largely limited to its immediate neighbours. Japanese investment has already supported several projects to increase connectivity including: the upgrading of East-West and North-South economic corridors in the Mekong subregion; bridge and airport improvement in Cambodia and Lao PDR; and modernization of marine ports in Malaysia, Indonesia and the Philippines. In 2014, the Vice Foreign Minister of Japan pledged further Overseas Development Aid (ODA) loans to the five AMS in the GMS in order to foster the subregion's integration and connectivity within ASEAN (Global Post, 2014). In addition to further ODA, mechanisms to boost private-sector investment in regional infrastructure, including from Japan, should be further developed.

IPR protection is important in fostering inward investment and protecting domestic innovation. Effective protection of IPRs has not to date been successfully addressed by bilateral Economic Partnership Agreements (EPAs) between Japan and individual AMS. EPAs only include non-binding requirements for technology transfer and sharing of research in customs procedures but did not provide any framework for protection of the shared findings and prevention of their illegal reselling or further distribution. Many AMS score poorly in international rankings of

---

<sup>5</sup> Japan has also been a major investor in China in recent years which in some cases is a direct competitor of the ASEAN economies as a location for manufacturing production, particularly in industries such as electronics which are tightly integrated with global value chains. However, rising wages and land prices in China, as well as political tensions between China and Japan, have further encouraged Japanese firms to diversify away from dependence on China-based production. This has benefitted ASEAN as some Japanese companies are shifting production to the subregion in preference to expanding operations in China (Nikkei, 2014). Alternatively some firms are establishing an additional production facility outside China while keeping operations going there; this is sometimes referred to as the "China+1" strategy (Reuters, 2012).

IPR protection. For instance, Thailand, Indonesia and Viet Nam rank 50<sup>th</sup>, 59<sup>th</sup>, and 66<sup>th</sup> among the 97 nations assessed by the International Property Rights Index (IPRI, 2014). The Japan Patent Office has been working closely with the IP Offices of individual AMS to address this issue and has developed individually-tailored IP Office management schemes as well as enhanced information systems infrastructure that take into account the challenges that newer AMS are facing (JPO, 2014). These initiatives only took place recently and the issue of IPRs still requires higher attention and recognition during future Japan-ASEAN dialogues and negotiations.

### **Labour mobility**

Labour mobility can help firms find the skills they need; allow workers to gain valuable experience; and foster development in origin countries through remittance flows. Labour migration into Japan is presently strictly controlled despite labour shortages in certain sectors, not least as a result of the declining working age population. Currently, in Japan, most foreigners do not reside in Japan officially as labour migrants but rather as family members or as students. However, there are certain visa categories that allow taking up specific kinds of work, such as “entertainers” or “special internships”. In 2011, Japan’s foreign population was slightly above 2 million, which included all categories of migrants. About 80% of foreign nationals in Japan are from other countries in Asia but the majority of these are non-ASEAN. The largest populations are from China (32%) and the Republic of Korea (26%). Japan could benefit from opening its labour market to workers from ASEAN countries. Bilateral agreements for instance with the Philippines, already do this in sectors like healthcare but could be further expanded. Indeed there are currently around 210,000 workers from the Philippines in Japan (10%). Such schemes could be extended to other ASEAN economies and should contain training provisions so that when workers return to countries of origin they take back valuable new knowledge.

Some ASEAN countries, notably Thailand, are already home to many Japanese overseas workers (most working for Japanese multinationals) though many sectors remain restricted to foreign workers in general. More also needs to be done, however, to realize the AEC goal of free movement of intra-ASEAN skilled labour. The current AEC framework is based on Mutual Recognition Agreements of professional qualifications. While useful these MRAs fall short of free movement as national work permits are still required and can be hard to obtain (Orbeta, 2013). Deeper labour market integration would enhance the attractiveness of ASEAN as an investment location as firms (including Japanese businesses) could better source the workers they need. ASEAN also needs to do more to support the safe and legal movement of lower-skilled workers, possibly through expanding temporary worker programmes.

### **Prospects for post-2015 partnership**

Both the ASEAN countries and Japan stand to gain from expanded economic co-operation and integration. For Japan, struggling to break out of prolonged economic stagnation and weighed down by rapidly aging population, the ASEAN subregion, with a total population of over 635 million people, a combined GDP of \$2.4 trillion and an average annual growth of GDP of 5.7%, represents a big potential source of demand growth (Ministry of Economics, Trade and

Industry, Japan, 2012). For ASEAN, facing significant development gaps among its member states, inadequate physical and institutional infrastructure, energy constraints and unbalanced development between rural and urban areas, Japanese investment will continue to be a crucial source of technology, know-how, training and job creation.

Examples of successful cooperation projects include: the development of economic corridors, transport infrastructure and water management systems in the Greater Mekong subregion; enhancement of agro-industry sectors in the East-ASEAN Growth Area; as well as the expansion of the tourism sector in Indonesia and Malaysia. Japan will also remain an important export destination. However, as companies from ASEAN expand and increase their competitiveness, moving up the value chain, they may also find themselves in increasing competition with Japanese companies, for instance in the electronics sector.

Three significant regional processes present substantial opportunities to boost Japan-ASEAN economic relations: (i) the completion of the AEC in 2015; (ii) the conclusion of the RCEP and TPP negotiations; and (iii) the implementation of the 2012-2022 ASEAN-Japan Strategic Economic Cooperation Roadmap.

### **ASEAN Economic Community**

The formal deadline for implementation of the AEC Blueprint at the end of 2015 will ceremonially mark a milestone in the process of economic integration in South-East Asia. The ambition of the AEC is that it will “transform ASEAN into a region with free movement of goods, services, investment, skilled labour, and freer flow of capital” (ASEAN Secretariat, 2014). The AEC Blueprint, launched in 2008 outlines the vision for the AEC and the steps towards its realization (ASEAN, 2008).

The AEC initiative contains four pillars: a single market and production base; a competitive economic region; equitable economic development; and integration into the global economy. The AEC has already established frameworks for liberalization of goods, services, capital and skilled labour flows, though progress in some areas, notably skilled labour mobility, has been disappointing to date (Huelser and Heal, 2014). AMS are currently working on further cooperation in intellectual property rights, competition law, and cross-border transport and communication networks (ASEAN Secretariat, 2014).

Japan, both as the primary investor and a key trading partner of ASEAN, will benefit from the subregion’s deeper integration and increased connectivity, which will enable Japanese firms to expand their supply chains to countries they hitherto had not considered because of infrastructure or institutional limitations. At the same time, given the persistence of non-tariff barriers within ASEAN and slow implementation of the agreed frameworks by the CLMV countries due to capacity constraints there are doubts on whether a single market can in fact be established. Further, as the development gap amongst ASEAN members will remain substantial, Japanese firms and development agencies might be incentivized to assist with capacity building, to help realize elements of the AEC where progress is uneven, for instance on trade facilitation.

### **Regional Comprehensive Economic Partnership**

The Regional Comprehensive Economic Partnership, a trade deal currently under negotiation, could link ASEAN and six other dialogue partners from Asia and the Pacific: Australia, China, India, Japan, New Zealand and the Republic of Korea. These countries all currently have bilateral FTAs with ASEAN. Launched in 2012, RCEP has thus far had seven rounds of negotiations on tariff and non-tariff barriers. In 2014 four working groups were created to deal with more specific areas: intellectual property, competition, technical cooperation and dispute settlement.

A significant obstacle to full realization of Japan-ASEAN trade and investment potential is the existence of complex rules which differ between markets and among the various trade agreements already in place. The integration of ASEAN members through the AEC, combined with the wider integration of several major regional economies through RCEP has great potential to streamline processes for exporters and simplify trade rules such as Rules of Origin standards.

RCEP has the potential to become an advanced region-wide economic partnership agreement that can both consolidate the various ‘ASEAN+1’ agreements and simultaneously replace the nine EPAs and FTAs signed bilaterally between individual ASEAN members and RCEP counterparts including Japan. Such simplification would help untangle the so-called “noodle bowl” of overlapping FTAs, many of which have differing rules of origin, tariff-reduction schedules and different coverage in terms of other commercial instruments. This would accelerate and deepen the development of regional supply chains and increase trade and investment flows. For instance, Currently, some individual AMS-Japan EPAs contain lower Japanese tariff rates for some products than under the Japan-ASEAN CEP—mainly those products that do not compete with Japan’s domestic manufacturing and agricultural sectors (Heng, 2007). But these overlapping agreements also potentially complicate the rules facing businesses wishing to engage in trade.

Four ASEAN members (Brunei Darussalam, Malaysia, Singapore, and Viet Nam) are also taking part in the Trans-Pacific Partnership (TPP) negotiations alongside Japan and seven other economies. The TPP is likely to go further than RCEP in promoting liberalization and rule-making on issues beyond current WTO obligations including on: labour and environmental standards; intellectual property rights; investment and competition policy; and disciplines on state-owned enterprises. Other ASEAN members, such as Thailand, may join at a later stage. A potential Free Trade Area of the Asia-Pacific (FTAAP) could also build on RCEP and TPP in future rounds of regional integration.

### **The 2012-2022 ASEAN-Japan Strategic Economic Cooperation Roadmap**

Following the coming into force of the Japan-ASEAN CEP in 2009, Japan and ASEAN jointly developed a roadmap for strategic economic cooperation. The Roadmap set an ambitious goal of doubling the flow of goods, services and investment between Japan and ASEAN between 2012 and 2022 to be achieved by: (i) integration of markets in ASEAN and the East Asian subregion; (ii) improvement of distribution networks and (iii) enhanced industrial cooperation

(METI, 2012). The Roadmap also outlined the role that Japan would play in transferring technology to ASEAN to help bridge the development gaps facing the bloc.

There are already several areas where Japan has shared expertise and technology with ASEAN under the auspices of the Roadmap, including on: computerization and harmonization of customs procedures; development of trade and customs tariff statistics systems; implementation of Intellectual Property Rights agreements; and frameworks for trade insurance system (AJCEP, 2013). Thus, irrespective of the outcome of RCEP negotiations, Japan and ASEAN already have a good working strategy under implementation to expand trade and investment flows.

In conclusion, while the Japan-ASEAN partnership continues to grow, future opportunities to boost regional integration through the removal of remaining barriers to trade and investment could ensure that the economic relationship continues to deepen in the twenty-first century.

## References

- ASEAN Briefing (2014), “RCEP Ministers Remain Optimistic Despite Negotiation Hurdles”  
[www.aseanbriefing.com/news/2014/09/01/rcep-ministers-remain-optimistic-despite-negotiation-hurdles.html](http://www.aseanbriefing.com/news/2014/09/01/rcep-ministers-remain-optimistic-despite-negotiation-hurdles.html)
- ASEAN Investment Report (2014), “FDI Statistics”  
[www.asean.org/images/resources/Statistics/2014/ForeignDirectInvestment/Aug/Table%2025.pdf](http://www.asean.org/images/resources/Statistics/2014/ForeignDirectInvestment/Aug/Table%2025.pdf)
- ASEAN Secretariat (2014), “Thinking Globally, Prospering Regionally”, 30 April 2014  
[http://www.asean.org/images/resources/2014/May/AECKeyMessagesBooklet\\_FINAL30Apr2014.pdf](http://www.asean.org/images/resources/2014/May/AECKeyMessagesBooklet_FINAL30Apr2014.pdf)
- ASEAN Secretariat News (2014), “ASEAN Sec-Gen Exchanges Ideas with Japanese Business Community,” 26 June 2014  
[www.asean.org/news/asean-secretariat-news/item/asean-secgen-exchanges-ideas-with-japanese-business-community](http://www.asean.org/news/asean-secretariat-news/item/asean-secgen-exchanges-ideas-with-japanese-business-community)
- ASEAN Statistics (2014), “International Merchandise Trade” (interactive table), Accessed 1<sup>st</sup> October 2014  
[aseanstats.asean.org/](http://aseanstats.asean.org/)
- Biswas, R., (2014) “Japan shifting investments from China to ASEAN”  
[www.dw.de/japan-shifting-investments-from-china-to-asean/a-17809068](http://www.dw.de/japan-shifting-investments-from-china-to-asean/a-17809068)
- Chongvilaivan, A., (2013) “Taking the Income Gap in Southeast Asia Seriously”, ISEAS #19, April 2013  
[www.iseas.edu.sg/documents/publication/ISEAS%20Perspective%202013\\_19.pdf](http://www.iseas.edu.sg/documents/publication/ISEAS%20Perspective%202013_19.pdf)
- fDiMarkets (2014), “Investor Signals: Japan (2003-2013)”  
<http://www.fdimarkets.com/>
- FJCCIA (2014), “Economic Relations between ASEAN and Japan”, Joint Press Conference, 24 June 2014  
[http://www.asean.org/images/resources/2014/Jun/Joint\\_Press-Conference-FJCCIA.pdf](http://www.asean.org/images/resources/2014/Jun/Joint_Press-Conference-FJCCIA.pdf)
- Global Post (2014) “Japan's ODA serves as "investment in future" for ASEAN: white paper,” 21 February 2014  
[www.globalpost.com/dispatch/news/kyodo-news-international/140220/japans-oda-serves-investment-future-asean-white-paper](http://www.globalpost.com/dispatch/news/kyodo-news-international/140220/japans-oda-serves-investment-future-asean-white-paper)
- Heng, T., (2007) “Relationship between the AJCEP and Japan’s Bilateral EPAs with ASEAN Countries”  
<http://www.asean.org/archive/aadcp/repsf/docs/05-002-FinalReport.pdf>
- Huelser, S. and A. Heal (2014), Moving Freely? Labour Mobility in ASEAN, ARTNeT Policy Brief No.40  
<http://www.unescap.org/sites/default/files/polbrief40.pdf>
- Hiraga, T., (2014) “Current Status of Japanese Operations in ASEAN and Changes in Manufacturing Industry Supply Chains and Locational Trends”, 30 May 2014  
[www.iist.or.jp/en-m/2014/0231-0931/](http://www.iist.or.jp/en-m/2014/0231-0931/)
- Hsieh, P. L., (2014) “Trade in Legal Services Liberalization in Asia-Pacific FTAs: Assessing the Convergence of ASEAN Rules” Working Paper No. 2014/20, 1 July 2014  
[ssrn.com/abstract=2461321](http://ssrn.com/abstract=2461321)
- IMF, Direction of Trade Statistics (2013), “ASEAN Economic Community: Progress and Global Perspective”  
<http://www.imf.org/external/country/VNM/rr/2013/101113.pdf>
- Japan LP Gas Association (2013), “Statistical Data in Japan”  
[www.j-lpgas.gr.jp/en/download/dl/statistical\\_data\\_2013.pdf](http://www.j-lpgas.gr.jp/en/download/dl/statistical_data_2013.pdf)
- Japan Automobile Manufacturers Association (2014), “The Motor Industry of Japan 2014”  
<http://www.jama-english.jp/publications/MIJ2014.pdf>
- Japanese Chemical Fibers Association (2013), “Textile and Clothing Industry of Japan: Japan's Import & Export by Region”  
[http://www.jcfa.gr.jp/english/tcij/4\\_trade/4-3\\_import\\_export.html](http://www.jcfa.gr.jp/english/tcij/4_trade/4-3_import_export.html)
- JETRO (2014), “Survey of Japanese-Affiliated Companies”  
<http://www.jetro.go.jp/en/reports/survey/biz/>
- METI Japan (2012), “ASEAN – JAPAN 10-YEAR STRATEGIC ECONOMIC COOPERATION ROADMAP”  
[www.meti.go.jp/policy/trade\\_policy/east\\_asia/dl/AJ\\_10year\\_SEC\\_Roadmap.pdf](http://www.meti.go.jp/policy/trade_policy/east_asia/dl/AJ_10year_SEC_Roadmap.pdf)
- MOFA Japan (2003), “The Japan-ASEAN Plan of Action”  
[www.mofa.go.jp/region/asia-paci/asean/year2003/summit/action.pdf](http://www.mofa.go.jp/region/asia-paci/asean/year2003/summit/action.pdf)
- MOFA Japan (2008), “Agreement on Comprehensive Economic Partnership among Japan and Member-States of ASEAN”

<http://www.mofa.go.jp/policy/economy/fta/asean/agreement.html>

MOF Japan, (2009) “Network of Bilateral Swap Arrangements under the Chiang Mai Initiative”  
[www.mof.go.jp/english/international\\_policy/financial\\_cooperation\\_in\\_asia/cmi/CMI\\_0904.pdf](http://www.mof.go.jp/english/international_policy/financial_cooperation_in_asia/cmi/CMI_0904.pdf)

MOF Japan, (2014) “Trade Statistics: Value of Exports and Imports 2014 (January-June)”  
[http://www.customs.go.jp/toukei/shinbun/trade-st\\_e/2014/2014\\_316e.pdf](http://www.customs.go.jp/toukei/shinbun/trade-st_e/2014/2014_316e.pdf)

Observatory of Economic Complexity (2014) “Export destinations of Japan”  
[http://atlas.media.mit.edu/explore/tree\\_map/hs/export/jpn/show/all/2012/](http://atlas.media.mit.edu/explore/tree_map/hs/export/jpn/show/all/2012/)

Orbeta, A., (2013) “Enhancing Labor Mobility in ASEAN: Focus on Lower-skilled Workers”, PIDS Discussion Paper 2013-17, February 2013  
[dirp4.pids.gov.ph/ris/dps/pidsdps1317.pdf](http://dirp4.pids.gov.ph/ris/dps/pidsdps1317.pdf)

Singh, B., (2002) “ASEAN’s Perceptions of Japan: Change and Continuity”, Asian Survey, Vol. 42, No. 2, March-April 2002, UC Press  
<https://www-jstor-org.acces-distant.sciences-po.fr/stable/10.1525/as.2002.42.2.276>

Thomasson, S., (2013), “Textile World Asia: Indonesia – Driving Ahead”, October 2013  
[http://www.textileworldasia.com/Issues/2013/October-November-December/Country\\_Profiles/Indonesia-Driving\\_Ahead](http://www.textileworldasia.com/Issues/2013/October-November-December/Country_Profiles/Indonesia-Driving_Ahead)

UNCTAD (2013), “World Investment Report: Global Value Chains: Investment and Trade for Development”  
[unctad.org/en/PublicationsLibrary/wir2013\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

UNCTAD (2014), “Japan Trade statistics”  
[unctad.org/sections/dite\\_dir/docs/wir2014/wir14\\_fs\\_jp\\_en.pdf](http://unctad.org/sections/dite_dir/docs/wir2014/wir14_fs_jp_en.pdf)

World Bank (2014), “Net bilateral aid flows from DAC donors, Japan (current US\$)”  
<http://data.worldbank.org/indicator/DC.DAC.JPNL.CD?page=6>

World Bank Doing Business (2014), “Trading Across Borders, Japan”  
<http://www.doingbusiness.org/data/exploretopics/trading-across-borders>

World Economic Forum (2014), “Lack of investors’ confidence in ASEAN’s political stability”, 21 August 2014  
[www.weforum.org/news/geopolitical-stability-and-reducing-inequality-essential-asean-economic-growth](http://www.weforum.org/news/geopolitical-stability-and-reducing-inequality-essential-asean-economic-growth)

World Integrated Trade Solution (2014), “Japan Trade Summary 2013”  
<http://wits.worldbank.org/CountryProfile/Country/JPN/Year/2013/Summary>

World Trade Organization (2012), “A 21st Century Trade Agenda: Global Supply Chains and Logistics Services”  
[http://www.wto.org/english/forums\\_e/public\\_forum12\\_e/art\\_pf12\\_e/art5.htm](http://www.wto.org/english/forums_e/public_forum12_e/art_pf12_e/art5.htm)

WTO (2012), “World Tariff Profiles 2012”  
[http://unctad.org/en/PublicationsLibrary/wto2012\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wto2012_en.pdf)

The Trade Insights series is prepared by the Trade and Investment Division, United Nations Economic and Social Commission for Asia and the Pacific. The series summarizes current trade related issues; offers examples of good practice in trade policymaking; and helps disseminate key research findings of relevance to policy. The series is intended to inform both trade and development practitioners and the general public. The series is issued without formal editing. The views expressed in the Insights are those of the authors and do not necessarily reflect those of the United Nations or ESCAP member States.

The Trade Insights series (apart from the cited copyrighted content) may be used free of charge for the purposes of advocacy, education, and research provided that the source is acknowledged in full. The authors requests that they be informed of all such usage for impact assessment purposes. For copying in any other circumstances, or for re-use in other publications, or for translation or adaptation, permission must be secured, and a fee may be charged.

The Trade Insights series is freely available on the ESCAP website:

[www.unescap.org/our-work/trade-investment](http://www.unescap.org/our-work/trade-investment)



[facebook.com/UNESCAP](https://facebook.com/UNESCAP)



[@unescap](https://twitter.com/unescap)



[escap-tid@un.org](mailto:escap-tid@un.org)



[www.unescap.org](http://www.unescap.org)

Trade and Investment Division

United Nations ESCAP

Rajadamnern Nok Avenue

Bangkok 10200, Thailand

Tel: +66(0) 22881410

Fax: +66(0) 22881027